IAC LIMITED 53rd ANNUAL REPORT 1977

53rd ANNUAL REPORT 1977

for the year ended December 31, 1977

IAC Limited
Incorporated under the laws of Canada
February 7, 1925
Head Office, 45 St. Clair Avenue West,
Toronto, Ontario M4V 2Y2
Si vous désirez recevoir un exemplaire en français du rapport annuel de IAC, veuillez vous adresser au secrétaire, IAC Limitée, 45 ouest, avenue St. Clair, Toronto, Ontario M4V 2Y2

Contents

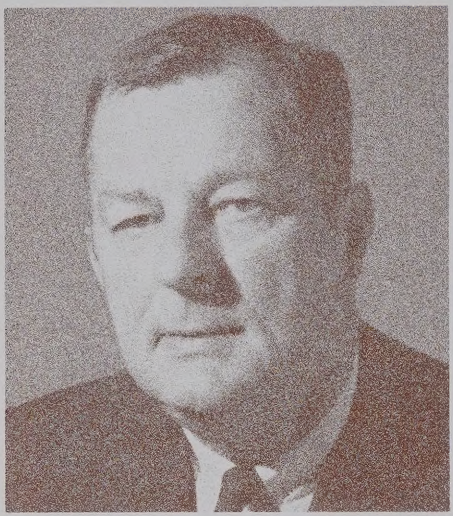
HIGHLIGHTS FOR THE YEAR

	1977	1976	Per cent Increase (Decrease)
Gross Income	$ 260,236,000	$ 269,226,000	(3.3)
Proportion taken up by			
—Cost of borrowed money	50.0%	50.2%	
—General and administrative expenses	24.5%	23.1%	
Earnings applicable to common shares			
—Before extraordinary item	$ 30,605,000	$ 29,994,000	2.0
—After extraordinary item	$ 33,628,000	$ 31,341,000	7.3
Dividends paid on common shares	$ 15,994,000	$ 15,440,000	3.6
Proportion of earnings	47.6%	49.3%	
Earnings per share			
—Before extraordinary item	$2.26	$2.21	
—After extraordinary item	$2.48	$2.31	
Dividends paid per share	$1.18	$1.14	3.5
Per cent return on average common equity	14.92%	14.99%	

AT THE YEAR END

	1977	1976	Per cent Increase (Decrease)
Total consolidated assets	$2,536,484,000	$2,409,966,000	5.2
Total receivables	$2,481,134,000	$2,305,514,000	7.6
Main categories:			
Sales financing	$1,050,801,000	$1,052,444,000	(0.2)
Consumer loans	178,086,000	203,709,000	(12.6)
Residential mortgages	258,936,000	248,880,000	4.0
Commercial loans	277,355,000	83,590,000	231.8
Leasing	710,753,000	710,217,000	0.1
Total debt	$1,680,839,000	$1,545,947,000	8.7
Short-term debt	642,334,000	621,162,000	3.4
Other term debt	1,038,505,000	924,785,000	12.3
Shareholders' equity	$ 250,947,000	$ 233,761,000	7.4
Number of common shareholders	11,589	11,307	2.5
—domiciled in Canada	96.1%	95.9%	
Number of common shares outstanding	13,573,643	13,544,033	0.2
—owned in Canada	96.7%	96.5%	
Book value per common share	$17.29	$16.03	7.9

Continental Bank of Canada Building, Toronto



Keith Herbert MacDonald,
Chairman of the Board,
IAC Limited

Joseph Stephen Land,
Vice-Chairman of the Board,
IAC Limited

Douglas William Maloney,
President,
IAC Limited

Stanley Frank Melloy,
Executive Vice-President,
IAC Limited

Earnings applicable to common shares increased for the fourteenth consecutive year reaching $33.6 million as against $31.3 million in 1976. On a per share basis, the increase was 17 cents to $2.48 compared with $2.31 in the previous year. However, it should be noted that an extraordinary item of $3 million resulted from the sale of your Company's insurance subsidiaries. This represented a gain of 22 cents per share, compared with a gain of 10 cents per share from an extraordinary item in 1976.

The dividend paid per common share was $1.18 against $1.14 in the previous year. Accordingly, 1977 was the forty-first consecutive year in which dividends were earned and paid, and in each of the past twenty-two years the payout exceeded that of the previous year.

Average funds employed during the year were higher than in 1976. However, due to rate adjustments implemented by your Company for competitive reasons, gross income was 3% less than the previous year. Conversely, although the usage of borrowed funds increased, the decline in the average cost of such funds to 8.4% from 8.9% in 1976 resulted in an overall decrease in money costs of $5.1 million. General and administrative expenses were up 2.6% over the previous year.

Since receivables represent most of the Company's assets, their sound condition is important to shareholders. In the year 1977, credit losses as a percentage of average receivables were .42% as compared with .47% in 1976. This compares favourably with other financial institutions and is below the Company's average loss experience for the past 10 years.

The Canadian financial market continued to reflect confidence in your Company by supplying $150 million in term funds during the year. The parent Company placed secured notes totalling $100 million in the public market, and Niagara Realty of Canada Limited completed a public placement of $50 million. Both issues were in Canadian funds.

On December 19, your Company and the other shareholders of The Sovereign Mortgage Insurance Company exchanged their shares in that company for shares in Insmor Holdings Limited, the company which now owns the Insmor Mortgage Insurance Company and The Sovereign Mortgage Insurance Company. A group, comprising IAC and a number of banks, trust and insurance companies, owns all of the shares of Insmor Holdings Limited.

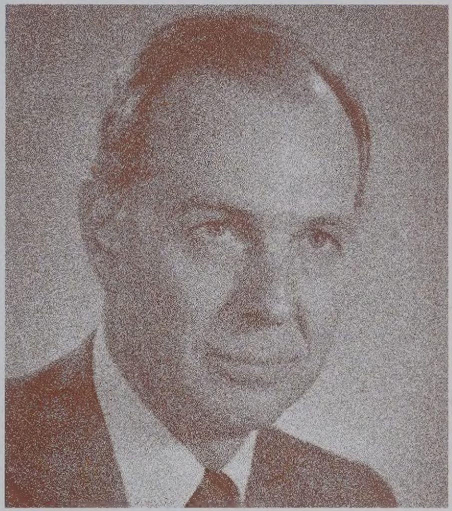
On July 14, 1977, Royal Assent was given to a special Act of Parliament incorporating the Continental Bank of Canada. The passage of the special Act followed a number of years of study, consultation and planning aimed at eventual conversion of your Company to a chartered bank. This is the first time in Canada that legislation has been passed making it possible to convert a major financial institution into a chartered bank.

The special Act creates the Continental Bank of Canada, initially as a wholly-owned subsidiary of IAC. One of the provisions of the Act requires that all of the Company's business eligible to be done by a chartered bank must be done by the Continental Bank and not by IAC or any of its other subsidiaries. This provision takes effect from the day the Bank begins operations and applies to all the Company's offices across Canada. Another provision of the Act requires that on or before July 14, 1987, IAC and the Continental Bank of Canada will amalgamate. When this happens, IAC shareholders will become shareholders of the Continental Bank of Canada.

To comply with other requirements of the special Act, IAC sold its two insurance subsidiaries, The Sovereign Life Assurance Company of Canada and The Sovereign General Insurance Company, in November 1977. While the sale was beneficial in terms of earnings, as reflected in the extraordinary item, by the same token it was regrettable in light of the long and close relationship that IAC enjoyed with these two companies.

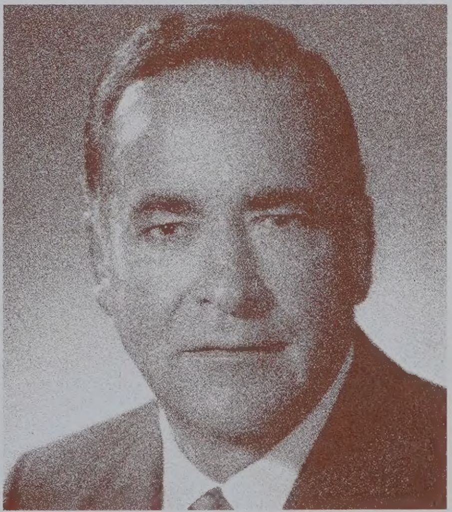
The Company is continuing to develop its internal plans to reshape the organization in the form of the Continental Bank. A major step in that direction was the managerial integration of IAC and its subsidiary companies. As a result of that integration, the personal and mortgage lending activities of the Niagara companies have been conjoined with the financing and leasing business of IAC. With these companies now unified for operating purposes, the way has been paved for the Continental Bank to offer many of the bank lending services available from major competitors.

In addition to the managerial integration, the Company has moved ahead in a number of other areas in the past year with a view to beginning bank operations. A few examples of corporate operations undergoing considerable change and development are: the entire body of systems and procedures that will form the basis for all operating practices within the Bank; policies for personnel training, development and recruitment; the location of new premises and the design of premises to complement the marketing objectives and character of the Continental Bank; and finally, the Company's ongoing effort to develop new financial services to make the Continental Bank fully competitive with other banks.



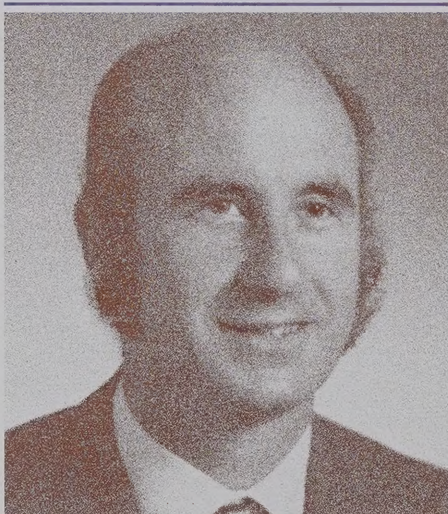
Harold Corrigan, C.A., *President, Alcan Canada Products Limited*

Peter Kilburn, *Honorary Chairman, Greenshields Incorporated*



Claude Harry Rosier, *President and Chief Operating Officer, Abitibi Paper Company Ltd.*

Adam Hartley Zimmerman, F.C.A.,
Executive Vice-President,
Noranda Mines Limited



Peter Frederick Bronfman,
President, Edper Investments Ltd.

Stanley Desmond Clarke,
President, Clarke
Transportation Canada Ltd.

The conversion is a massive task, but one that is well under way. The Report of the Chief Operating Officer discusses the background of the project and of some of the more important implications for shareholders. As well, it reflects the confidence of the Company that the conversion will proceed smoothly and with success.

Since the last annual meeting of shareholders, the following were elected to the Board:

John A. Rhind
Jacques Tétrault, Q.C.

During the year, because of the Company's intention to become a chartered bank, the following Directors, who already held directorships with other deposit-taking institutions, found it necessary to tender their resignations:

E. Jacques Courtois, Q.C.
David Kinnear

They served your Company with distinction, and their individual contributions were deeply appreciated by their colleagues. The resignations were accepted with regret.

The results recorded in this Annual Report speak well for the manner in which the men and women of IAC across Canada approached their responsibilities. Your Directors wish to record their appreciation and warm thanks for their efforts.

The outlook for the Canadian economy continues to be one of uncertainty, particularly in the area of business capital investment. However, your Directors feel that continued progress in the fields in which it participates can be expected of your Company, and they are of the opinion that the results for the year 1978 will be again satisfactory.

On behalf of the Board,

Chairman

President

February 22, 1978

IAC has a consistent and proven record of profitable growth. Through more than 50 years, the Company has been a vigorous competitor in the financial industry, seizing new opportunities to provide service to its customers, and adapting its business to meet a passing parade of competitive challenges.

IAC's objectives are, as they have always been, to achieve profitable growth for its shareholders, personal development for its employees, superior financial service for its customers; and, moreover, to achieve these objectives as a company owned by Canadians.

Some time ago it became evident that the Company was facing a new challenge, a challenge caused by a blending of the traditional distinctions that separated the different types of financial institutions. IAC realized that if it continued to restrict its vision to traditional markets, the opportunities for continuous profitable growth would eventually be limited.

Many alternative courses of action were considered, but a number of detailed studies led to the conclusion that the Company should concentrate on the possibility of converting IAC into a chartered bank.

As a bank, the Company would become more competitive with other major financial institutions carrying on business in Canada. It would be able to broaden the range of financial services provided to its customers. It would also be able to utilize its capital more effectively. The Company's equity capital, now in excess of $250,000,000, provides a strong base on which to expand deposits and increase lending capacity without requiring additional shareholder capital.

While studies showed the bank option to be increasingly attractive, they also raised a number of practical issues.

IAC conducts certain types of business that are prohibited to chartered banks under the present Bank Act. Therefore, the Company had to weigh carefully the consequences of pursuing the bank option. It had to calculate the cost of giving up that business which is prohibited to a bank. It had to evaluate the effect of probable revisions to the Bank Act. It had to make assumptions about the extent to which IAC might be allowed to continue for a transitional period certain activities not permitted to a bank. It had to determine the feasibility of conversion in the light of legal, tax, accounting, trust deed and other considerations.

Even after reviewing all these practical issues, it was clear that acquiring a bank charter was a much more attractive long-term option for the Company than any other alternative course of action, including the alternative of simply maintaining the Company's present structure.

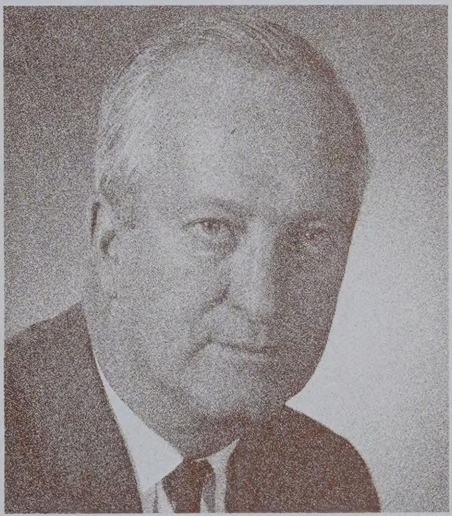
There was no expectation that it would be easy to make this precedent-setting conversion to a chartered bank. It was accepted that the entire conversion would take a major commitment in both manpower and expenditures. But with a broad perspective, the Company set out to achieve its two main objectives, to incorporate the Bank, and later to convert IAC into that Bank. There is good progress to report on both counts.

Incorporation

The special Act chartering the Continental Bank of Canada is based on two simple concepts.

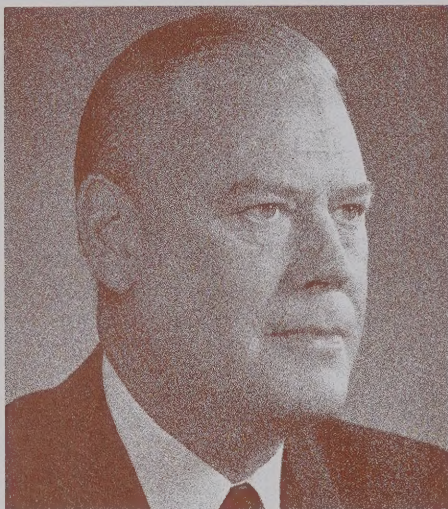
First, it is recognized in the Act that in its present form IAC does not conform to the requirements of the Bank Act. This applies both to its capital structure and to its operations. Therefore, a maximum period of ten years is provided as a transitional period for the Company to take steps to conform with the Bank Act.

Ronald Laird Cliff, C.A.,
Chairman, Inland Natural Gas Company Ltd.



George Lyndon Crawford, Q.C.,
Associate, McLaws & Company

Helen Lavina Margison,
President, Shed Investments Limited



Lyndon Elvert Nichol, *Retired, former Chairman of the Board, IAC Limited*

Edmond George Odette, *President, Eastern Construction Company Limited*

John Arthur Rhind, *President, Confederation Life Insurance Company*

The Company must amalgamate with the Bank before July 14, 1987. IAC is a major operating financial institution with a number of subsidiary companies and a large amount of debt outstanding under trust deeds with various covenants. The transition period gives the Company time to adjust its asset and liability structure. At the end of the transition period IAC will disappear into the Bank. At the time of amalgamation, the shareholders of IAC will become shareholders of the Continental Bank of Canada.

Secondly, the special Act embodies the concept that the Continental Bank of Canada, not IAC or any of its other subsidiaries, will become the principal operating arm of the Company. The Bank must carry on all the business of the IAC companies permitted for a chartered bank. Therefore, from the date that the Continental Bank commences business, neither IAC nor its subsidiary companies will be permitted to initiate any business which is eligible to be carried on by a chartered bank. Such business must be conducted, and must be seen to be conducted, by the Continental Bank of Canada.

At present, approximately 90% of the Company's volume of business, excluding leasing, would qualify as bank business. Note, though, that IAC and its subsidiary companies may continue to hold assets acquired prior to the opening of the Bank until those assets are liquidated.

Although banks are not allowed under the present Bank Act to carry on leasing activities, satisfactory provisions have been made in the special Act for IAC and its other subsidiaries to continue their leasing activities on a prescribed basis until amalgamation takes place.

There are also a number of other provisions of the special Act that are of particular interest to shareholders.

The Bank will be a wholly-owned subsidiary of IAC with authorized capital of $100,000,000. Initially, IAC will subscribe for $50,000,000 of the capital stock of the Bank. The Company will hold and vote all shares of the Bank until amalgamation.

Since IAC will own 100% of the Bank, certain provisions of the Bank Act are now applicable to IAC and its shareholders. Among the provisions which apply are those dealing with share structure and transferability of shares, including limitations on the number of shares that may be transferred to or voted on by any one person or by non-residents.

The provisions of the current Bank Act do not allow for preferred shares to be issued by a chartered bank. Therefore, a provision has been made in the special Act to allow the presently-existing preferred shares of IAC to remain outstanding until the amalgamation of IAC and the Bank.

At present, holders of IAC convertible debentures have the right to convert these debentures into common shares of the Company on specified dates. This right will not be affected by either the Bank Act or the special Act. It is possible that IAC and the Bank may amalgamate before the dates specified for the conversion of the debentures. If this occurs, the debentures will be permitted to remain outstanding and will be convertible into shares of the Bank on the originally specified dates.

Operations

Since much of the Company's current business is similar in nature to that being done by the chartered banks, there will be no fundamental change in the nature of the Company's business that will cause a lengthy adjustment for the staff. For many years, the staff has been lending money to businesses and individuals, and making mortgage loans to homeowners and industry. Although the conversion to banking involves an adjustment in internal procedures and external awareness, there is in banking a substantial affinity between what IAC has done for most of its history and what the Continental Bank of Canada will do in the early years of its life.

The planning necessary to put the Bank in operation is proceeding well. The objective is to make the conversion an orderly process. Major new lending programs are now being introduced across the Company, and all will be in place before the Bank opens. This means accelerating activity in current operations so that the Bank will open with a range of highly competitive programs already in operation.

Nevertheless, successful handling of the conversion will be a challenging assignment for management. Task forces have been set up in Head Office, and through a project planning coordinator, conversion activities are being planned using a critical path approach. Some senior people with specific skills have been hired to participate in the planning and to play an important role in continuing operations.

Much consideration has also been given to the location of the Company's offices. Many are well-suited for bank operations; others which are not considered suitable are being relocated as leases expire. Prime attention is being paid to having first class premises in the business centres of major cities across the country, as soon as possible. Over the next three to five years, it is expected that all offices will be refurbished and new facilities will be added in suburban markets. This is a time-consuming and expensive project, but one that is essential.

As part of the process of achieving a highly visible presence for the new Bank, the Company recently announced plans to relocate the Head Office in a new building to be known as the Continental Bank of Canada Building. The building is already under construction at the corner of Adelaide and York Streets in Toronto's financial district, and will be available for occupancy in mid-1979. This move coincides with the expiration of leases on the Company's existing Head Office locations. For the first time in a number of years, all Head Office groups will be working under one roof in what will be the Bank's long-term home.

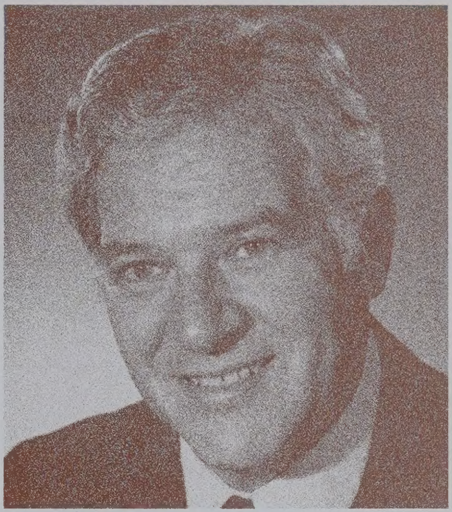
The Bank conversion is a major project, but there has been no disruption in IAC's normal business operations. The contrary is the case. The Company's first priority is to attain growth in assets through greater penetration of existing markets and the development of new sources of business. New lending programs are being introduced now to ensure that the new Bank commences operations with an expanding business base. These new programs cover motor vehicle financing; corporate, industrial and commercial loans; leasing; residential and commercial mortgages; and personal loans.

The Company intends to be competitive in the current year and throughout the conversion period. The new competitive lending programs will produce growth in assets, though at lower yields. The extent to which growth will offset both declining yields and the substantial start-up costs for the Bank cannot be precisely forecast either as to timing or effect on earnings. What is certain is that the Company is making a bold investment in its future.

In large measure, the degree of success of the conversion now rests on the skills of the staff. The Company is confident that its people will respond to the challenge, as they are now doing, and that the conversion project will be successfully completed.

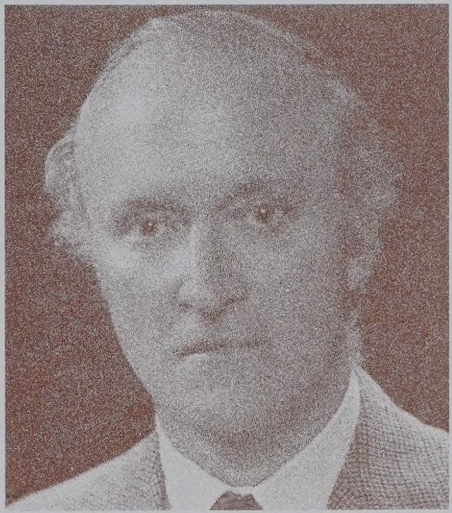
A. L. Melloy

Executive Vice-President
and Chief Operating
Officer



Leonard Edmond Ricard,
President, Imperial Tobacco Limited

Struan Robertson, *President and Chief Executive Officer, Maritime Telegraph and Telephone Company Ltd.*



Jacques Tétrault, Q.C.,
Partner, Courtois, Clarkson, Parsons & Tétrault

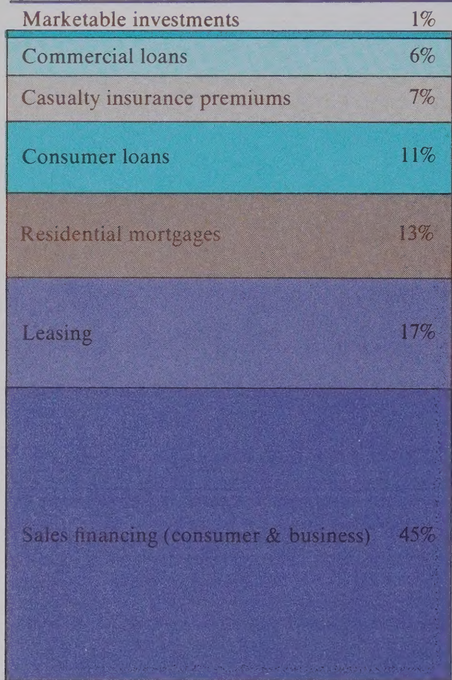


Chart 1 Sources of Gross Income (before provision for doubtful receivables)

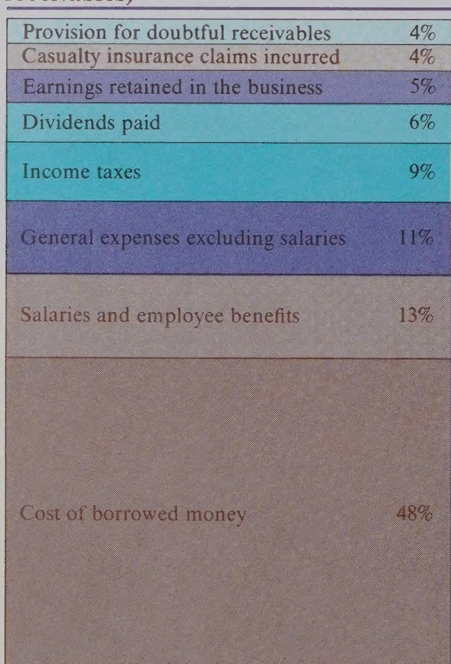


Chart 2 Composition of Gross Income Distribution

Results for 1977 reflect the implementation of some plans in anticipation of the opening of the Continental Bank of Canada. A start has been made on restructuring the Company's lending portfolio: corporate lending has been introduced; commercial and industrial lending has been expanded; certain types of personal lending have been pursued less actively. Charges for many services have been adjusted to levels that are competitive with the broad range of financial institutions. In addition, the life and general insurance subsidiaries were sold in the last quarter of 1977. Please note that the Consolidated Statement of Earnings includes the earnings of these two companies only for the first nine months of 1977, compared with the full 12 months of 1976. This fact should be taken into consideration when comparing results for the two years. All expenses to date in preparing for conversion to the Bank have been fully absorbed and are included in general and administrative expenses.

Gross Income

Receivables outstanding grew by $176 million over 1976. This compared with growth of $6 million in the previous 12-month period. However, due to the rate adjustments which were implemented for competitive reasons, there was a 3.5% reduction in income derived from receivables compared with 1976.

Chart 1 Sources of Gross Income (before provision for doubtful receivables)

In line with the general restructuring of the Company's business, income from **commercial loans** and **residential mortgages** increased. Growth in average outstandings in these categories more than offset rate reductions, and their combined proportion of gross income rose from 15% in 1976 to 19% in the current year. Certain types of **consumer loans** received less emphasis and thus income from this category declined substantially. This strategy was followed in anticipation of the launching of new personal lending programs more appropriate to a bank lending portfolio.

Chart 2 Composition of Gross Income Distribution

The distribution of income by categories remained relatively stable. The use of borrowed funds increased by $50.2 million, but due to lower average rates on borrowings the cost of money was reduced by $5.1 million. General and administrative expenses increased by only 2.6% overall. However, to make a true comparison between 1976 and 1977, expenses for the casualty insurance company should be excluded for both years, and expenses related to the discontinued operations in the United Kingdom should be excluded for 1976. On this basis, general and administrative expenses increased 6.8% in the current year over the previous year, an increase still regarded as reasonably satisfactory in the prevailing economic climate.

Chart 3 Earnings per Share $
Dividends per Share $
The increase in earnings of 17 cents per share was an improvement over the increase of 13 cents in 1976. The dividend payout of $1.18 per common share exceeded that of the previous year, as has the payout in each of the past twenty-two years. The amount paid was the maximum allowed under Anti-Inflation Board regulations, and represented 47.6% of available earnings.

Chart 4 Shareholders' Equity $000's
Book Value per Common Share $
Retained earnings increased by $17.1 million, resulting in a 7% growth in shareholders' equity. Including the extraordinary item, return on common equity was 14.92%.

Chart 5 Receivables and their Composition
In 1977, receivables increased by $176 million, despite a generally sluggish economy. Business financing was up 14%, with a substantial part of the gain being attributable to the introduction of corporate lending services. As a result of restructuring the Company's lending activities, the consumer portfolio decreased by 5%. This decrease was entirely in **consumer loans** and **consumer purchase credit**. **Residential mortgages** continued to grow, though at a somewhat slower rate than in 1976.

Summary
In 1977, spending by Canadian consumers and capital investment by business was guarded. However, the Company's performance during the year continued to be satisfactory. Total receivables increased; the condition of those receivables is sound; and earnings reached a new high. Preliminary indications suggest a ready acceptance of new marketing plans. Overall, your Company is in a strong position to take advantage of its new opportunities.

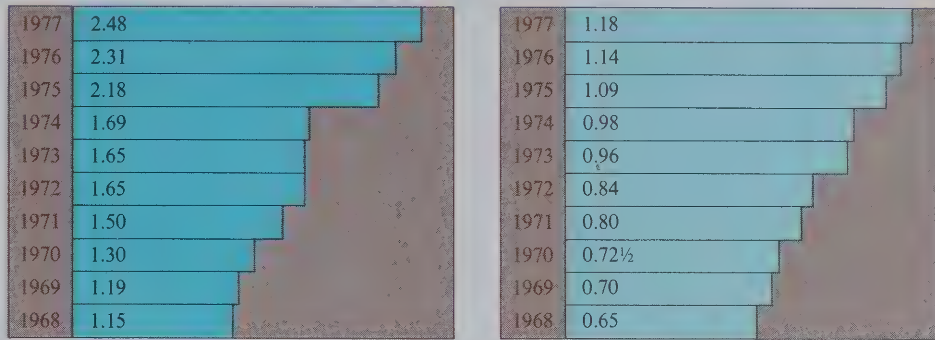


Chart 3
Earnings per Share $
Dividends per Share $

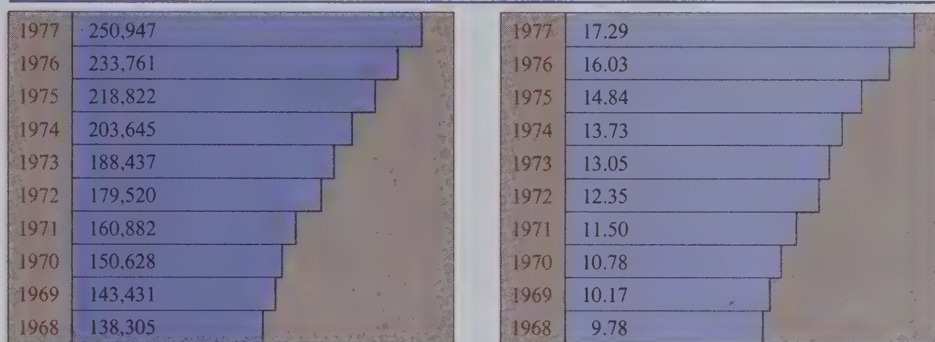


Chart 4
Shareholders' Equity $000's
Book Value per Common Share $

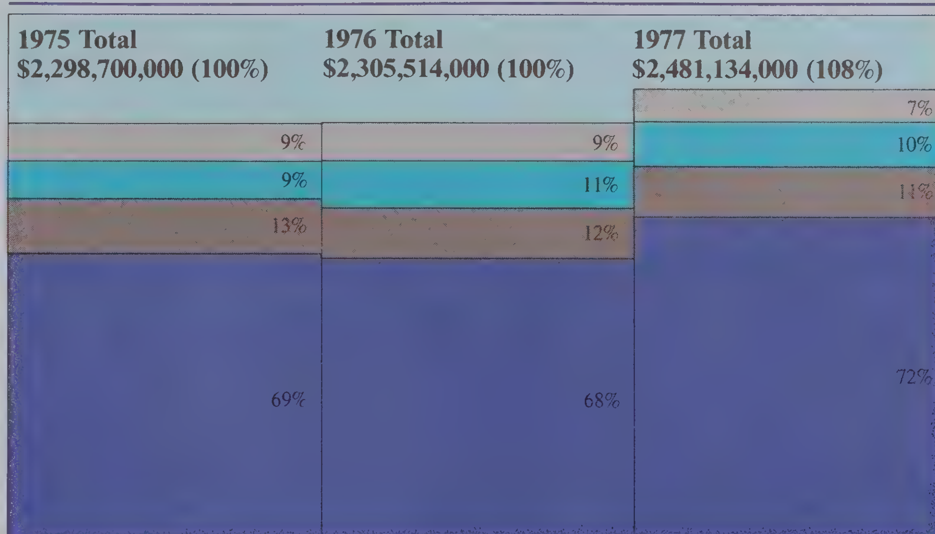


Chart 5 Receivables and their Composition
Consumer Loans
Residential Mortgages
Consumer Purchase Credit
Business Financing

CONSOLIDATED STATEMENT OF EARNINGS
for the year ended December 31, 1977

	1977 $000's		1976 $000's	
Gross Income (note 2)		260,236		269,226
Expenditure				
Cost of borrowed money—				
Short-term debt	51,251		61,889	
Other term debt	78,912		73,376	
	130,163		135,265	
Casualty insurance claims incurred	11,049		13,032	
General and administrative	63,866	205,078	62,231	210,528
		55,158		58,698
Provision for Income Taxes				
Current	7,236		5,707	
Deferred	17,815	25,051	23,434	29,141
		30,107		29,557
Parent company's portion of increase in unassigned surplus of life assurance subsidiary (note 3)		851		851
Share of earnings of mortgage insurance company (note 4)		547		512
Earnings before Extraordinary Item		31,505		30,920
Extraordinary Item				
Gain on sale of subsidiaries (note 3)		3,023		1,347
Earnings for the Year		34,528		32,267

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1977

	1977 $000's	1976 $000's
Earnings for the year	**34,528**	32,267
Dividends on preferred shares	**900**	926
Earnings Applicable to Common Shares	**33,628**	31,341
Dividends on common shares at $1.18 per share (1976—$1.14)	**15,994**	15,440
Earnings retained in the business	**17,634**	15,901
Gain on preferred shares purchased for cancellation	**65**	302
Reassessment of capital taxes for the years 1972 to 1976 net of income taxes of $405,000	**(581)**	—
Increase in retained earnings for the year	**17,118**	16,203
Retained earnings at beginning of year	**166,110**	149,907
Retained earnings at end of year (note 5)	**183,228**	166,110

	1977 ($)	1976 ($)
Common Stock Earnings per Share—		
Calculated on daily average of common shares outstanding — 13,551,871; 1976—13,543,285 (note 6)		
(a) Before extraordinary item	**2.26**	2.21
(b) After extraordinary item	**2.48**	2.31

CONSOLIDATED BALANCE SHEET
as at December 31, 1977

ASSETS	1977 $000's	1976 $000's
Cash	3,516	57,774
Marketable Securities—at cost, plus accrued interest (market value 1977—$28,187,000; 1976—$32,525,000)	28,318	33,531
Receivables		
Sales financing (note 7)	1,050,801	1,052,444
Consumer loans	178,086	203,709
Residential mortgages	258,936	248,880
Commercial loans	277,355	83,590
Leasing	710,753	710,217
Other	5,203	6,674
	2,481,134	2,305,514
Allowance for doubtful receivables	25,284	24,057
	2,455,850	2,281,457
Investments in Non-Consolidated Subsidiary and other Companies		
Other companies—at cost (note 4)	9,651	1,564
Life assurance subsidiary (note 3)	—	8,615
Mortgage insurance company (note 4)	—	6,402
	9,651	16,581
Other Assets and Deferred Charges		
Income taxes recoverable	153	248
Leasehold improvements and prepaid expenses	2,493	2,691
Unamortized debt discount and expense	13,251	13,365
Unrealized foreign exchange losses (note 1 (d))	19,127	—
Premises and equipment—at cost, less accumulated depreciation of $6,200,000 (1976—$6,234,000)	4,125	4,319
	39,149	20,623
	2,536,484	2,409,966

Signed on behalf of the Board J.S. Land, Director S.F. Melloy, Director

CONSOLIDATED BALANCE SHEET
as at December 31, 1977

LIABILITIES	1977 $000's	1976 $000's
Secured Demand Bank Loans	—	17,500
Secured Short-Term Notes (note 1 (d))	642,334	603,662
Secured Term Notes (Schedule A and notes 1 (d) and 10)	900,520	761,993
Debentures (Schedule B and note 10)	98,927	122,176
Subordinated Debentures (Schedule C and notes 10 and 13)	33,956	35,158
Unsecured Term Notes (notes 1 (d) and 9)	5,102	5,458
	1,680,839	1,545,947
Payables		
Accounts payable and accrued liabilities	106,269	100,117
Income taxes	1,698	1,885
	107,967	102,002
Unearned Income (note 11)	331,083	375,588
Unrealized Foreign Exchange Gains (note 1 (d))	—	3,624
Deferred Income Taxes (note 12)	165,648	149,044
	2,285,537	2,176,205

SHAREHOLDERS' EQUITY	1977 $000's	1976 $000's
Capital Stock (Schedule D)		
Preferred shares	16,268	16,623
Common shares (note 13)	51,451	51,028
	67,719	67,651
Retained Earnings (note 5)	183,228	166,110
	250,947	233,761
	2,536,484	2,409,966

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1977

	1977 $000's	1976 $000's
Sources of Funds		
Operations—		
Earnings before extraordinary item	31,505	30,920
Amortization of debt discount and expense	1,699	2,263
Amortization and depreciation of fixed assets	1,645	1,751
Provision for deferred income taxes	17,815	23,434
Contribution to earnings of unconsolidated subsidiary and mortgage insurance company	(1,398)	(1,363)
	51,266	57,005
Borrowings—		
Short-term debt—issues, less redemptions	23,883	(86,093)
Other term debt—		
Proceeds from new borrowings	192,983	238,442
Redemptions	104,681	149,914
	88,302	88,528
	112,185	2,435
Funds received on sale of subsidiaries	22,067	10,447
Less: Cost of assets sold	9,578	8,625
	12,489	1,822
Capital Stock—		
Common shares—proceeds of issue	423	31
Preferred shares—cost of redemptions	(290)	(993)
	133	(962)
Investment in Marketable Securities	5,213	(16,421)
Other—		
Net increase in payables	3,024	4,415
Net decrease (increase) in other assets including other receivables	544	(4,235)
	3,568	180
Decrease in cash	54,258	7,183
	239,112	51,242
Uses of Funds		
Increase (decrease) in operating assets—		
Receivables—		
Sales financing	(1,643)	(14,990)
Consumer loans	(25,623)	(12,741)
Residential mortgages	10,056	46,633
Commercial loans	193,765	(759)
Leasing	536	(14,623)
	177,091	3,520
Decrease in unearned income	44,505	30,417
Increase in allowance for doubtful receivables	(1,227)	(417)
	220,369	33,520
Investment in mortgage insurance and other companies	1,268	1,356
Dividends paid on common and preferred shares	16,894	16,366
Reassessment of prior years' capital taxes	581	—
	239,112	51,242

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 1977

1. Significant Accounting Policies

(a) Principles of consolidation
The statements consolidate the accounts of the company and its subsidiaries.

(b) Recognition of revenue
Precomputed charges on sales financing retail receivables for terms for less than forty-eight months and on consumer loan receivables are taken into income using the sum-of-the-digits method on an account by account basis. Because this method does not maintain the original yield over longer terms, on sales financing retail contracts written for terms in excess of forty-eight months, unearned income is taken into earnings on the actuarial yield basis.

Discount on residential mortgages purchased is brought into income over the remaining term of the mortgage using the actuarial yield method.

Leasing transactions are reported in accordance with the financing method of accounting. The excess of aggregate rentals over the cost of the leased asset is recorded as unearned income at the time of the transaction. Income is taken up over the term of the lease pro rata to the declining balance of the investment. Gains arising from residual values of leased assets are reflected in earnings only when realized. Contractual disposal proceeds negotiated at the inception of the lease are included in unearned income and taken up as described above.

(c) Allowance for doubtful receivables
For IAC sales financing, consumer loans, commercial loans and leasing, such allowance is established by evaluating individual accounts. For residential mortgage receivables, the allowance is set up as a percentage of such receivables. After collection possibilities have been exhausted, any balance remaining on an account is written off.

(d) Translation of foreign currencies
Unhedged assets and liabilities are translated to Canadian funds at current exchange rates. Foreign currency borrowings which are covered by forward exchange contracts are recorded at exchange rates established under the terms of such contracts. Exchange gains and losses on current assets and liabilities are considered to be realized and are reflected in the statement of earnings for the current fiscal year. Net unrealized exchange losses or gains, resulting from the difference between the current exchange rate and the exchange rate at the date the proceeds of unhedged borrowings were received or the date of purchase of unhedged assets, are deferred and carried in "Unrealized foreign exchange losses" or "Unrealized foreign exchange gains" respectively in the balance sheet.

(e) Amortization of debt discount and expense
Debt discount and expense is amortized over the term of the related debt instrument. If the debt is prepayable or exchangeable at the holder's option, the amortization is calculated to the first optional maturity date. When a debt obligation is redeemed prior to maturity, the related unamortized charges are written off in the month of redemption.

(f) Methods of depreciation
Buildings are depreciated on a straight-line basis at the rate of 2.5% per annum. All other physical assets are depreciated at the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowance.

Leasehold improvements are amortized in accordance with the regulations of the same Act over the term of the respective leases.

2. Gross Income

	1977	1976	Increase (decrease)	
	$000's	$000's	$000's	%
Sales financing	**121,282**	129,454	(8,172)	(6.3)
Consumer loans	**29,459**	39,242	(9,783)	(24.9)
Residential mortgages	**36,387**	33,451	2,936	8.8
Commercial loans	**17,245**	10,021	7,224	72.1
Leasing	**46,342**	47,779	(1,437)	(3.0)
	250,715	259,947	(9,232)	(3.6)
Provision for doubtful receivables	**11,159**	11,617	458	3.9
	239,556	248,330	(8,774)	(3.5)
Casualty insurance premiums	**18,674**	19,311	(637)	(3.3)
Marketable securities	**2,006**	1,585	421	26.6
	260,236	269,226	(8,990)	(3.3)

3. Sale of Subsidiary Companies
On November 15, 1977, the company sold all of its shares of its subsidiaries, The Sovereign Life Assurance Company of Canada and The Sovereign General Insurance Company. The sale resulted in a net gain of $3,023,000.

The company previously recorded its investment in The Sovereign Life Assurance Company of Canada at cost plus the company's portion of increase in unassigned surplus of the subsidiary since acquisition. Included in income for the current year is the company's portion of the increase in the unassigned surplus of the subsidiary to September 30, 1977.

The results of operations of The Sovereign General Insurance Company amounting to net earnings of $1,500,000 for the period to September 30, 1977 have been consolidated in the company's statement of earnings for the year.

4. Sale of The Sovereign Mortgage Insurance Company
On December 19, 1977, the company exchanged its investment in 40% of the common shares and $2,468,000 of the preferred shares of The Sovereign Mortgage Insurance Company for 17% of the common shares and $2,468,000 of the preferred shares of Insmor Holdings Limited.

The investment in The Sovereign Mortgage Insurance Company was accounted for on the equity method. The investment in shares of Insmor Holdings Limited is accounted for on the cost basis and is included in "Investments in Other Companies" on the balance sheet.

5. Retained Earnings—Statutory Appropriation
As at December 31, 1977, an amount of $8,732,000 equal to the par value of preferred shares purchased for cancellation, had been set aside in the accounts out of retained earnings (1976—$8,377,000).

6. Fully Diluted Common Stock Earnings per Share
Assuming that all conversion rights outstanding at December 31, 1977 had actually been exercised at the beginning of the year, fully diluted earnings per common share for the year ended December 31, 1977 would have been:

	1977 $	1976 $
(1) Before extraordinary item	**2.16**	2.10
(2) After extraordinary item	**2.36**	2.20

The calculation assumes that earnings applicable to common shares were increased by $1,181,000 representing the elimination of interest, net of income taxes, attributable to the $9\frac{1}{2}\%$ convertible subordinated debentures.

7. Sales Financing Receivables

Sales financing receivables comprise:

	1977 $000's	1976 $000's
Wholesale receivables	**349,162**	287,670
Retail receivables	**701,639**	764,774
	1,050,801	1,052,444

8. Maturities of Gross Receivables and Payables

(In millions of dollars)

	1 year	2 years	3 years	4 years	5 years	6-10 years	Over 10 years	Total
Receivables								
Sales financing	703.1	213.6	96.2	22.3	8.8	6.8	—	1,050.8
Consumer loans	89.7	53.0	29.0	5.7	0.7	—	—	178.1
Residential mortgages	28.1	38.1	47.6	57.1	58.8	15.5	13.7	258.9
Commercial loans	51.7	20.5	22.2	17.7	33.1	130.7	1.5	277.4
Leasing	113.0	105.1	86.8	69.7	59.7	190.0	86.4	710.7
Other receivables	5.2	—	—	—	—	—	—	5.2
	990.8	430.3	281.8	172.5	161.1	343.0	101.6	2,481.1
Payables								
Debt*	712.7	62.2	79.8	53.2	92.0	533.9	147.0	1,680.8
Other	99.7	5.2	2.3	0.5	0.2	0.1	—	108.0
	812.4	67.4	82.1	53.7	92.2	534.0	147.0	1,788.8
Excess of Receivables (Payables)	178.4	362.9	199.7	118.8	68.9	(191.0)	(45.4)	692.3

All receivables have been allocated on the basis of contractual terms including residential mortgages which formerly were allocated on the basis of amortization schedules.
*Allocation not adjusted for sinking fund, mandatory redemption and purchase fund requirements (see note 10).

9. Unsecured Term Notes

Unsecured notes comprise:

	1977 $000's	1976 $000's
Parent company—		
8% term note for U.S. $3,471,000 (1976—$3,879,000) repayable in equal semi-annual instalments until 1986	3,797	3,913
Niagara Finance Company Limited—		
6% term note for U.S. $1,193,000 (1976—U.S. $1,533,000) repayable in equal semi-annual instalments until 1981	1,305	1,545
	5,102	5,458

10. Sinking Fund, Mandatory Redemption and Purchase Fund Requirements

The sinking fund and mandatory redemption requirements for the years ending December 31, 1978 to 1982 are as follows:

	$000's
1978	5,293
1979	5,609
1980	5,873
1981	6,641
1982	9,376

Certain issues have purchase fund requirements which are non-cumulative and under which the IAC companies are required to redeem only debt instruments offered to them subject to limitations as to price and aggregate annual amounts. It is not possible to predict the amounts that will be offered by holders. The maximum purchase fund requirements for the years ending December 31 are as follows:

(In millions of dollars)

Years ending December 31,	
1978	$18.6
1979	$15.3
1980	$12.7
1981	$11.4
1982	$ 9.6
1983-1987	$28.4
after 1987	$25.6

11. Unearned Income

Unearned income comprises:

	1977 $000's	1976 $000's
Unearned service charges relating to sales financing receivables	95,879	110,005
Unearned service charges relating to consumer loans	25,319	32,198
Deferred income relating to residential mortgages	3,457	4,257
Deferred income relating to commercial loans	373	9
Unearned income relating to leasing receivables	206,055	220,613
Unearned casualty insurance premiums	—	8,506
	331,083	375,588

12. Deferred Income Taxes

Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following:

	1977 $000's	1976 $000's
Commercial loans	147	68
Residential mortgage receivables	971	935
Unamortized debt discount and expense	707	718
Premises and equipment	171	184
Unearned casualty insurance premiums	—	1,019
Leasing receivables	163,652	146,120
	165,648	149,044

13. Common Shares

1,194,950 common shares are reserved for conversion rights exercisable until July 14, 1979 at 50 shares (equivalent to $20 per share) and thereafter, until July 14, 1984 at 46 shares (equivalent to $21.74 per share) for each $1,000 of principal of the 1974 9½% convertible subordinated debentures.

14. Commitments Under Leases

The companies have leases on office premises used for their business, requiring rental payments as follows:

Years	Approximate annual rentals $
1978	2,762,000
1979	2,295,000
1980	1,667,000
1981	1,143,000
1982	901,000

The aggregate rentals for 1983 and thereafter amount to $5,228,000.

15. Remuneration of Directors and Officers

	1977 $	1976 $
Aggregate remuneration of the IAC Limited directors as directors of:		
IAC Limited	**100,113**	88,452
Niagara Finance Company Limited	**16,500**	18,150
The Sovereign General Insurance Company	**8,150**	9,500
The Sovereign Life Assurance Company of Canada	**11,750**	12,400
	136,513	128,502
Number of directors of IAC Limited	**21**	25
	$	$
Aggregate remuneration of the IAC Limited officers as officers of IAC Limited	**1,684,237**	1,513,671
Aggregate remuneration of the IAC Limited officers as directors of:		
Niagara Finance Company Limited	**8,400**	10,050
The Sovereign General Insurance Company	**2,650**	3,000
The Sovereign Life Assurance Company of Canada	**2,350**	2,600
	13,400	15,650
Number of IAC Limited officers	**24**	26
Number of IAC Limited officers who were also directors	**4**	4

16. Contingent Liabilities

IAC and some of its subsidiaries are parties to certain litigation incidental to the kind of business conducted. In the opinion of management, the ultimate liability, if any, will not materially affect the companies' consolidated financial position or results of operations.

17. Anti-Inflation Act

The company and its subsidiaries are subject to the provisions of the Federal Anti-Inflation Legislation restraining prices, profit margins, compensation and dividends.

18. Conversion to a Chartered Bank

On July 14, 1977, an Act of Parliament incorporating the Continental Bank of Canada and providing for the conversion of the Company into a bank received Royal Assent.

CONSOLIDATED DETAILS OF SECURED TERM NOTES
as at December 31, 1977

Schedule A

	Year of issue	Series	Rate %	Maturity date		1977 $000's	1976 $000's
Payable in Canadian funds—							
Parent company	1959	"T"	5¾	April 1, 1979		**6,000**	6,000
	1959	"V"	6½	December 1, 1979		**5,000**	5,000
	1960	"W"	6	August 15, 1980		**7,500**	7,500
	1961	"X"	5¾	November 15, 1981		**8,500**	8,500
	1962	"Y"	5.40	July 2, 1982		**10,000**	10,000
	1964	"28"	5¾	September 15, 1984		**15,000**	15,000
	1965	"31"	5¾	March 1, 1985		**12,500**	12,500
	1965	"33"	6	December 1, 1985		**5,000**	5,000
	1966	"34"	6½	February 1, 1986		**6,000**	6,000
	1969	"37"*	8¼	May 1, 1979		**200**	200
	1969	"37"*	8¾	May 1, 1989		**1,200**	1,200
	1972	"39"*	8¾	September 1, 1991		**26,914**	28,625
	1976	—	9½	May 15, 1981		**25,000**	25,000
	1976	— *	10¼	July 30, 1983		**100,000**	100,000
	1977	—	9	March 1, 1984		**100,000**	—
						328,814	230,525
Niagara Finance Company Limited	1964	"1"	5¾	April 15, 1984		**10,000**	10,000
	1964	"2"	5¾	May 1, 1985		**10,000**	10,000
	1965	"3"	5¾	May 1, 1985		**10,000**	10,000
	1966	"4"	7½	December 1, 1986		**5,000**	5,000
	1968	"5"	8¼	May 1, 1988		**7,500**	7,500
						42,500	42,500
Niagara Realty of Canada Limited	1970	"A"*	9¾	December 15, 1990		**4,610**	4,610
	1971	"B"*	7⅞	December 15, 1986		**17,923**	18,516
	1972	"C"*	8¼	August 15, 1982		**12,893**	13,465
	1973	"D"*	7⅞	May 15, 1988		**18,376**	18,801
	1974	"E"*	9	March 1, 1994		**23,460**	23,460
	1974	"F"*	10¼	June 18, 1981		**9,834**	9,834
	1974	"F"**	10⅜	December 18, 1984		**12,750**	13,494
	1977	"G"*	9½	January 30, 1984		**50,000**	—
						149,846	102,180
Payable in U.S. funds (note 1(d))—					Par value U.S. $000's		
Parent company	1957	"S"	5½	February 15, 1977	—	**—**	15,870
	1962	"Z"	5¼	October 1, 1982	10,000	**10,940**	10,088
	1963	"27"	5¼	April 1, 1988	10,000	**10,940**	10,088
	1964	"29"	5	October 1, 1984	10,000	**10,940**	10,088
	1965	"30"	5	February 15, 1985	15,000	**16,410**	15,132
	1965	"32"	5½	October 1, 1987	20,000	**21,880**	20,176
	1966	"35"	5¾	February 1, 1986	12,825	**14,031**	12,938
	1968	"36"*	7¾	October 15, 1986	10,550	**11,542**	11,398
	1969	"38"*	9½	June 1, 1990	12,900	**14,112**	13,165
	1974	"40"*	9¼	May 15, 1994	42,525	**46,522**	43,378
	1976	"41"#	9½	March 15, 1983	50,000	**54,700**	50,440
					193,800	**212,017**	212,761
Niagara Finance Company Limited	1975	"6"**	10½	September 1, 1990	27,000	**29,538**	28,745

Holders of "37" notes due in 1979 have an option to exchange these notes at maturity for either 8½% 1984 notes or 8¾% 1989 notes.

Holders of "38" notes have the right to prepayment on June 1, 1980 or 1985.

Holders of "A" notes have the right to prepayment on December 15, 1980 or 1985.

Holders of "B" notes have the right to prepayment on December 15, 1978.

Holders of "D" notes have the right to prepayment on May 15, 1980.

Holders of "E" notes have the right to prepayment on March 1, 1980.

Holders of the 9% notes due March 1, 1984 have the right to prepayment on March 1, 1983.

The parent company has guaranteed secured notes of Niagara Realty of Canada Limited as to principal, interest and redemption premiums, if any.

*These notes have purchase fund provisions (note 10).

**These notes have a sinking fund provision (note 10).

#These notes have mandatory redemption provision (note 10).

CONSOLIDATED DETAILS OF SECURED TERM NOTES
as at December 31, 1977

Schedule A (Continued)

	Year of maturity	Par value U.S. $000's	1977 $000's	1976 $000's
Notes issued at rates of interest varying from 7.50% to 10.25%				
Payable in Canadian funds—				
Parent company	1977		—	50,508
	1978		**46,505**	43,505
	1979		**27,090**	290
	1980		**2,515**	2,515
			76,110	96,818
Niagara Finance Company Limited	1977		—	880
	1978		**172**	172
	1979		**15**	15
	1980		**20**	20
	1982		**5**	—
			212	1,087
Payable in U.S. funds (note 1(d))—				
Parent company	1977	—	—	5,816
	1978	1,800	**1,969**	1,815
	1979	1,800	**1,969**	1,815
	1980	1,800	**1,969**	1,815
	1981	1,800	**1,970**	1,815
	1982	35,000	**38,290**	20,178
	1983	10,000	**10,940**	10,088
		52,200	**57,107**	43,342
Niagara Finance Company Limited	1982	1,000	**1,094**	1,009
	1983	1,000	**1,094**	1,009
	1984	1,000	**1,094**	1,009
	1985	1,000	**1,094**	1,008
		4,000	**4,376**	4,035
			900,520	761,993

All secured notes payable in U.S. funds have been converted at current exchange rates (note 1(d)).

CONSOLIDATED DETAILS OF DEBENTURES
as at December 31, 1977

Schedule B

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	**Outstanding 1977 $000's**	Outstanding 1976 $000's
Payable in Canadian funds—						
Parent company	1957	5¾**	January 15, 1977	—	—	5,324
	1957	6 **	September 1, 1977	—	—	3,050
	1958	5½**	February 1, 1978	6,000	**2,952**	3,127
	1959	6 **	June 15, 1979	10,000	**6,150**	6,686
	1960	6¾**	February 1, 1980	10,000	**6,386**	7,000
	1961	5¾**	July 2, 1981	10,000	**7,289**	7,558
	1962	5¾**	February 15, 1982	10,000	**6,543**	7,102
	1965	6½*	December 15, 1983 ...	10,000	**5,974**	6,654
	1966	7½*	December 15, 1986 ...	10,000	**6,566**	6,689
	1970	9½#	October 15, 1992	15,000	**11,793**	11,793
	1975	9¾##	March 25, 1995	30,000	**29,785**	29,785
					83,438	94,768
Niagara Finance Company Limited	1972	8 **	April 17, 1992	15,000	**489**	12,408
	1974	11½###	October 15, 1994	15,000	**15,000**	15,000
					15,489	27,408
					98,927	122,176

*Sinking fund debentures (note 10).

**These debentures have purchase fund provisions (note 10).

#These debentures have purchase fund provisions until October 15, 1982 and sinking fund provisions thereafter. Holders have the right to prepayment on October 15, 1982 (note 10).

##These debentures have purchase fund provisions until March 25, 1983 and sinking fund provisions thereafter. Holders have the right to prepayment on March 25, 1983 (note 10).

###These debentures have purchase fund provisions and the holders have the right to prepayment on October 15, 1979, 1984 and 1989 (note 10).

DETAILS OF SUBORDINATED DEBENTURES
as at December 31, 1977

Schedule C

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	**Outstanding 1977 $000's**	Outstanding 1976 $000's
Payable in Canadian funds—						
Parent company	1966	6¾*	August 15, 1984	15,000	**9,888**	10,659
	1967	7 *##	November 1, 1985	10,000	**169**	600
	1974	9½**#	July 15, 1994	24,000	**23,899**	23,899
					33,956	35,158

*These debentures have sinking fund provisions (note 10).

**Convertible debentures (note 13).

#These debentures have purchase fund provisions (note 10).

##Conversion rights on these debentures expired October 31, 1977.

CONSOLIDATED DETAILS OF CAPITAL STOCK
as at December 31, 1977

Schedule D

	1977		1976	
	Shares	Amount $000's	Shares	Amount $000's
Preferred Shares				
Authorized and issued—				
4½% cumulative shares of $100 each redeemable at $101	**100,000**	**10,000**	100,000	10,000
Purchased for cancellation	**61,824**	**6,182**	61,824	6,182
	38,176	**3,818**	38,176	3,818
5¾% cumulative shares of $25 each redeemable at $26.25, declining to $25.25 at May 15, 1981	**600,000**	**15,000**	600,000	15,000
Purchased for cancellation	**101,983**	**2,550**	87,793	2,195
	498,017	**12,450**	512,207	12,805
		16,268		16,623
Common Shares				
Authorized without nominal or par value (note 13)	**20,000,000**		20,000,000	
Issued and fully paid—				
Beginning of year	**13,544,033**	**51,028**	13,541,883	50,997
Issued during the year—				
On conversion of 1967 7% convertible subordinated debentures	**29,610**	**423**	2,100	30
On conversion of 1974 9½% convertible subordinated debentures	**—**	**—**	50	1
	29,610	**423**	2,150	31
End of year	**13,573,643**	**51,451**	13,544,033	51,028

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of IAC Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants

Toronto, February 14, 1978

Accounting Policies
Accounting policies relating to the principles of consolidation, recognition of revenue, allowance for doubtful receivables, translation of foreign currencies, amortization of debt discount and expenses and methods of depreciation are presented in note 1 of the notes to the consolidated financial statements, page 15.

Bank Lines of Credit
The IAC companies maintain lines of credit with nine Canadian banks and directly or through their affiliates with twenty-five U.S. banks (including the ten largest banks). These bank lines are maintained to facilitate the short-term borrowing operations of the IAC companies. In accordance with general practice, bank lines of credit are subject to periodic review and may be terminated or reduced at the discretion of the bank. The total of all credit lines amounted to $663.5 million at December 31, 1977.

Borrowing Operations
IAC and its subsidiary, Niagara Finance Company Limited, borrow in the short, medium, and long-term markets in both the U.S.A. and in Canada. Another subsidiary, Niagara Realty of Canada Limited, has issued series of long-term secured notes as listed on page 34. These notes are guaranteed by the parent company.

Branch Organization
The activities of the IAC companies are carried on at more than 230 locations in all provinces of Canada. The branches are under the overall direction of Regional Managers. Regional Managers are accountable to the Division General Managers. There are four geographic divisions headquartered in Halifax, Montreal, Toronto and Vancouver. The Capital Funds Division, because of its specialized functions, is headquartered in Toronto and has a different branch network.

Branch Start-Up Expenses
Start-up expenses of new branches are charged to current earnings as and when incurred.

Delinquencies
Delinquent accounts are those of which the lesser of $25 or half of an instalment is past due one month or more.

Renewed accounts are analysed on the basis of the current payment schedule and extended accounts on the basis of the extended schedule. ''Renewal'' is a new contract entered into before the expiry of the old for the purpose of reducing the amount of the instalments originally agreed to by the customer. An ''extension'' means the postponement of all or a part of a current instalment.

The prerequisites for granting renewals or extensions are strictly determined and renewed or extended accounts are carefully controlled. Partial payments, no matter how recent, will not remove an account from delinquent status. The Supplement to this Annual Report contains detailed information.

Intercompany Borrowing
IAC, the parent company, does not borrow from subsidiaries. Subsidiaries are not permitted to invest in IAC securities either by way of debt instruments or of preferred or common stock.

Pension Fund
IAC has a contributory pension plan (based on retirement at age 62) covering all permanent employees aged 27 and over with more than one year of service. The pension plan is based on the highest average remuneration received over a period of five consecutive years prior to retirement. The company's contribution for 1977 amounted to $1,476,000 (1976: $1,267,000). In addition the company contributed $376,000 (1976: $350,000) to various government pension plans.

Write-Offs
Net credit losses written off during the year totalled $9,932,000 or 0.42% of average receivables (1976: $10,888,000 or 0.47% of average receivables).

TEN YEAR OPERATING AND STATISTICAL SUMMARY

	1977		1976		1975	
Assets and Liabilities ($000's)						
Total assets	2,536,484		2,409,966		2,390,847	
Total receivables	2,481,134		2,305,514		2,298,700	
Details:						
Sales financing—wholesale	349,162		287,670		295,850	
—retail	701,639		764,774		771,584	
Consumer loans	178,086		203,709		216,450	
Residential mortgages	258,936		248,880		202,247	
Commercial loans	277,355		83,590		84,349	
Leasing	710,753		710,217		724,840	
Other receivables	5,203		6,674		3,380	
Total debt	1,680,839		1,545,947		1,540,203	
Total equity	250,947		233,761		218,822	
Debt to equity ratio: times	6.70		6.61		7.04	
Operating Highlights ($000's) (% of gross income)						
Gross income	260,236		269,226		243,150	
Cost of borrowed money	130,163	50.0	135,265	50.2	114,265	47.0
General expenses	63,866	24.5	62,231	23.1	59,134	24.3
Earnings	34,528	13.3	32,267	12.0	30,450	12.5
Preferred dividends	900	.3	926	.4	988	.4
Earnings applicable to common shares	33,628	12.9	31,341	11.6	29,462	12.1
Average cost of borrowed money %	8.4		8.9		8.3	
Common Stock Facts						
Earnings per share outstanding—daily average	$2.48		$2.31		$2.18	
Per cent return on average equity	14.9		15.0		15.2	
Dividends paid per share	$1.18		$1.14		$1.09	
Income and other taxes per share	$1.96		$2.31		$2.31	
Number of shareholders	11,589		11,307		11,435	
Number of shares outstanding						
—year end	13,573,643		13,544,033		13,541,883	
—daily average	13,551,871		13,543,285		13,513,111	
—owned in Canada—year end %	96.7		96.5		96.3	
Book value per share	$17.29		$16.03		$14.84	

For comparative reasons, some of the figures for previous years have been restated to conform to the current presentation.

1974		1973		1972		1971		1970		1969		1968	
2,139,457		1,852,885		1,523,353		1,298,134		1,232,688		1,188,228		1,090,326	
2,065,068		1,779,556		1,455,635		1,206,857		1,143,403		1,111,494		1,014,893	
296,164		239,568		215,289		177,130		137,116		138,770		157,468	
798,840		725,232		606,912		516,973		533,823		566,407		510,800	
216,617		197,479		173,487		159,102		155,565		152,675		149,025	
175,619		127,589		94,148		75,992		62,631		52,044		42,000	
75,274		58,707		55,215		61,739		77,088		83,623		97,980	
498,701		427,499		307,813		212,812		173,089		113,567		53,705	
3,853		3,482		2,771		3,109		4,091		4,408		3,915	
1,407,572		1,203,673		974,080		850,844		841,506		843,284		795,448	
203,645		188,437		179,520		160,882		150,628		143,431		138,305	
6.91		6.39		5.43		5.29		5.59		5.88		5.75	
221,750		171,547		147,635		138,502		143,244		136,327		122,510	
115,847	52.2	73,280	42.7	55,919	37.9	52,838	38.1	60,693	42.4	56,030	41.1	48,958	40.0
51,359	23.1	46,083	26.9	43,214	29.3	40,740	29.4	40,938	28.6	40,161	29.5	36,761	30.0
23,336	10.5	22,494	13.1	21,994	14.9	19,415	14.0	16,862	11.8	15,484	11.4	14,936	12.2
996	.4	1,019	.6	1,034	.7	1,064	.8	1,079	.8	1,118	.8	1,146	.9
22,340	10.1	21,475	12.5	20,960	14.2	18,351	13.2	15,783	11.0	14,366	10.5	13,790	11.3
9.0		7.2		6.6		6.7		7.4		7.1		6.7	
$1.69		$1.65		$1.65		$1.50		$1.30		$1.19		$1.15	
12.6		13.0		13.8		13.5		12.5		12.1		12.1	
$ .98		$ .96		$ .84		$ .80		$ .72½		$ .70		$ .65	
$1.86		$1.82		$1.69		$1.66		$1.53		$1.45		$1.33	
11,853		12,510		12,672		12,802		13,502		13,904		14,081	
13,487,698		13,006,293		12,988,399		12,306,118		12,131,720		12,060,587		11,977,828	
13,204,861		12,995,747		12,694,400		12,207,770		12,085,813		11,922,218		11,954,178	
96.3		95.7		96.2		95.2		94.7		94.1		94.1	
$13.73		$13.05		$12.35		$11.50		$10.78		$10.17		$9.78	

The year 1977 was one of transition for Niagara, your Company's largest subsidiary. In anticipation of the commencement of operations by the Continental Bank of Canada, changes were made with a view to building a loan portfolio more appropriate to a banking institution: smaller transactions have been pursued less actively and the emphasis of business development activities has been redirected. In addition, charges for services have been adjusted to levels that are competitive with a wider spectrum of financial intermediaries.

The average size of transaction during the year increased by almost 50%, but as a consequence of soft demand mainly attributable to the economic situation and high regional unemployment, total receivables at $292 million were down from $310 million a year ago. Lower average receivables and the adjustment in rates resulted in lower gross income than in the previous year which was only partially offset by a decline in the cost of borrowed funds and a reduction in general and administrative expenses. Thus, earnings were $3.1 million, down from $5.0 million in 1976, excluding the $1.3 million gain on the sale of the United Kingdom subsidiary in that year. It is anticipated that the actions taken and new plans implemented will be reflected favourably in the Company's results in 1978.

Selected Niagara Finance Statistics:	**1977**	1976	1975	1974	1973
Earnings ($ thousands)	**3,122**	6,364	5,858	5,508	5,333
Receivables ($ millions)	**291.6**	310.2	317.8	310.3	273.9

STATEMENT OF EARNINGS
for the year ended December 31, 1977

	1977 $000's	1976 $000's
Gross Income (note 2)	**32,407**	42,121
Expenditure (note 3)		
Cost of borrowed money—Short-term debt	**4,139**	5,406
Other term debt	**9,989**	11,667
	14,128	17,073
General and administrative	**12,487**	15,179
	26,615	32,252
	5,792	9,869
Provision for Income Taxes		
Current	**1,312**	580
Deferred	**1,358**	4,272
	2,670	4,852
Earnings before Extraordinary Item	**3,122**	5,017
Extraordinary Item		
Gain on sale of subsidiary net of income taxes	**—**	1,347
Earnings	**3,122**	6,364

STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1977

	1977 $000's	1976 $000's
Earnings for the Year	**3,122**	6,364
Dividends		
Class A shares	**1,500**	1,750
Common shares	**1,500**	1,750
	3,000	3,500
	122	2,864
Reassessment of capital taxes for the years 1973 to 1976 net of income taxes of $47,000	**(66)**	—
Increase in Retained Earnings for the Year	**56**	2,864
Retained Earnings—Beginning of Year	**19,125**	16,261
Retained Earnings—End of Year	**19,181**	19,125

BALANCE SHEET
as at December 31, 1977

ASSETS	1977 $000's	1976 $000's
Cash	511	2,781
Receivables		
Loans (note 5)	200,720	226,000
Leasing	85,859	83,544
Other (note 4)	5,067	703
	291,646	310,247
Allowance for doubtful receivables	5,961	5,711
	285,685	304,536
Other Assets and Deferred Charges		
Leasehold improvements and prepaid expenses (note 6)	47	364
Unamortized debt discount and expense	943	1,335
Unrealized foreign exchange loss (note 1 (c))	1,894	—
Office equipment and automobiles (note 6)	—	993
	2,884	2,692
	289,080	310,009

LIABILITIES		
Secured Demand Bank Loans	—	10,400
Secured Short-Term Notes	43,483	36,334
Secured Term Notes (notes 7 and 12)	76,626	76,367
Debentures (notes 8 and 12)	15,489	27,408
Unsecured Notes (note 9)	27,865	22,745
	163,463	173,254
Payables		
Accounts payable and accrued liabilities	5,474	9,385
Income taxes payable	717	208
	6,191	9,593
Unearned Income (note 10)	53,805	62,199
Unrealized Foreign Exchange Gain	—	756
Deferred Income Taxes (note 11)	21,440	20,082
	244,899	265,884

SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized—150,000 5¼% non-cumulative, participating Class A shares with a par value of $100 each, redeemable at par; 150,000 common shares without nominal or par value		
Issued and fully paid—125,000 Class A shares	12,500	12,500
125,000 common shares	12,500	12,500
	25,000	25,000
Retained Earnings	19,181	19,125
	44,181	44,125
	289,080	310,009

Signed on behalf of the Board L.R. Woodall, Director S.F. Melloy, Director

STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1977

	1977 $000's	1976 $000's
Sources of Funds		
Operations—		
Earnings before extraordinary item	3,122	5,017
Amortization of debt discount and expense	152	210
Amortization and depreciation of fixed assets	—	463
Provision for deferred income taxes	1,358	4,272
	4,632	9,962
Decrease (increase) in operating assets—		
Receivables—		
Small loans	11,844	7,947
Other loans	13,779	4,794
Sales financing—retail	(343)	3,084
Leasing	(2,315)	(8,415)
	22,965	7,410
Increase in allowance for doubtful receivables	250	199
Decrease in unearned income	(8,394)	(4,774)
	14,821	2,835
Funds received on sale of subsidiary	—	10,447
Less: Cost of assets sold	—	8,625
	—	1,822
	19,453	14,619
Uses of Funds		
Borrowings—		
Short-term debt	(22,269)	(3,100)
Other term debt—		
Redemptions	34,550	19,653
	12,281	16,553
Dividends	3,000	3,500
Net increase (decrease) in other assets including other receivables	3,027	(253)
Net decrease (increase) in payables	3,349	(4,650)
Reassessment of prior years' capital taxes net of income taxes	66	—
	21,723	15,150
Decrease in cash	(2,270)	(531)
	19,453	14,619

NOTES TO FINANCIAL STATEMENTS
for the year ended December 31, 1977

1. Significant Accounting Policies

(a) Recognition of revenue

Precomputed charges on 'other' loans and on sales financing retail receivables are taken into income using the sum-of-the-digits method on an account by account basis.

Leasing transactions are reported in accordance with the financing method of accounting. The excess of aggregate rentals over the cost of the leased asset is recorded as unearned income at the time of the transaction. Income is taken up over the term of the lease pro rata to the declining balance of the investment. Gains arising from residual values of the leased assets are reflected in earnings only when realized. Contractual disposal proceeds negotiated at the inception of the lease are included in unearned income and taken up as described above.

(b) Allowance for doubtful receivables

For loans such allowance is established by evaluating individual accounts. After collection possibilities have been exhausted, any balance remaining on an account is written off.

(c) Translation of foreign currencies

Unhedged liabilities are translated to Canadian funds at current exchange rates. Foreign currency borrowings which are covered by forward exchange contracts are recorded at exchange rates established under the terms of such contracts. Exchange gains and losses on translation of current liabilities are considered to be realized and are reflected in the statement of earnings for the current fiscal year. Net unrealized exchange gains or losses, resulting from the difference between the current exchange rate and the exchange rate at the date the proceeds of unhedged term borrowings were received, are deferred and carried in the balance sheet.

(d) Amortization of debt discount and expense

Debt discount and expense is amortized over the term of the related debt instrument. If the debt is prepayable at the holder's option, the amortization is calculated to the first optional maturity date. When a debt obligation is redeemed prior to maturity, the related unamortized charges are written off in the month of redemption.

2. Gross Income

	1977 $000's	1976 $000's
Income from receivables	37,478	47,444
Less: Provision for doubtful receivables	5,071	5,323
	32,407	42,121

3. Expenditure
Commencing in 1977, the affairs of the company are administered by its parent, IAC Limited. IAC Limited is reimbursed for the cost of administrative services in a manner defined in an agreement between the two companies.

A loss of $735,000 on translation of foreign net assets which have since been sold is included in general and administrative expenses for 1976.

The aggregate direct remuneration paid or payable to directors and senior officers as defined in the Business Corporations Act of Ontario amounted to $33,000 (1976—$273,000).

4. Other Receivables
Under an arrangement with the parent company, the company conducts part of its banking business through a bank account established and maintained by the parent company. Included in other receivables is $4,344,000, the amount established under the arrangement as being the company's portion of this bank account as at December 31, 1977.

5. Loans
Small loans are those made for not more than $1,500 which are regulated under the Small Loans Act and upon which interest is accrued but not precomputed.

Loans comprise:	1977 $000's	1976 $000's
Small loans	21,693	33,537
Other loans	156,393	170,172
Sales financing—retail	22,634	22,291
	200,720	226,000

6. Sale of Fixed Assets
During the year, the leasehold improvements, office equipment and automobiles were sold to the parent company at their net book value.

7. Secured Term Notes

	Year of issue	Series	Rate %	Maturity date	1977 $000's	1976 $000's
Payable in Canadian funds—	1964	1	5¾	April 15, 1984	10,000	10,000
	1964	2	5¾	May 1, 1985	10,000	10,000
	1965	3	5¾	May 1, 1985	10,000	10,000
	1966	4	7½	December 1, 1986	5,000	5,000
	1968	5	8¼	May 1, 1988	7,500	7,500
					42,500	42,500
Payable in U.S. funds (note 1(c))—	1975	6	10½	September 1, 1990	29,538	28,745
Series 6 notes have a sinking fund provision.					72,038	71,245

Notes issued at rates of interest varying from 7⅝% to 9⅜%	Year of maturity	Par value U.S. $000's	1977 $000's	1976 $000's
Payable in Canadian funds—	1977		—	880
	1978		172	172
	1979		15	15
	1980		20	20
	1982		5	—
			212	1,087
Payable in U.S. funds (note 1(c))—	1982	1,000	1,094	1,009
	1983	1,000	1,094	1,009
	1984	1,000	1,094	1,009
	1985	1,000	1,094	1,008
		4,000	4,376	4,035
			76,626	76,367

8. Debentures
The holders of Series "C" debentures have the right to prepayment on October 15, 1979, 1984 and 1989.

Series "B" and "C" debentures have purchase fund provisions.

Year of issue	Series	Rate %	Maturity date	1977 $000's	1976 $000's
1972	"B"	8	April 17, 1977	—	11,919
1972	"B"	8	April 17, 1992	489	489
1974	"C"	11½	October 15, 1994	15,000	15,000
				15,489	27,408

9. Unsecured Notes—Unsecured notes comprise:

	1977 $000's	1976 $000's
Parent company—		
Demand note bearing interest at the monthly average cost of borrowed money to the parent company	26,560	1,200
Term note maturing October 15, 1977	—	20,000
6% term note for U.S. $1,193,000 (1976—$1,533,000) repayable in equal semi-annual instalments until 1981	1,305	1,545
	27,865	22,745

10. Unearned Income—Unearned income comprises:

	1977 $000's	1976 $000's
Unearned service charges relating to 'other' loans	25,319	32,198
Unearned service charges relating to sales financing—retail receivables	3,411	3,483
Unearned income relating to leasing receivables	25,075	26,518
	53,805	62,199

11. Deferred Income Taxes

Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following:

	1977 $000's	1976 $000's
Leasing receivables	21,477	20,041
Unamortized debt discount and expense	(37)	41
	21,440	20,082

12. Sinking Fund and Purchase Fund Requirements

The sinking fund requirements for the five years ending December 31, 1978 to 1982 are as follows:

$000's

1978	1979	1980	1981	1982
1,641	1,641	1,641	2,297	2,297

Series "B" and "C" debentures have purchase fund requirements which are non-cumulative and under which the company is required to redeem only debt instruments offered to it, subject to limitations as to price and aggregate annual amounts. It is not possible to predict the amounts that will be offered by holders. The maximum purchase fund requirements for the years ending December 31, 1978 and thereafter are as follows:

$000's
Year ending December 31,

1978	1979	1980	1981	1982	1983-1987	after 1987
725	475	—	—	—	62	63

13. Anti-Inflation Act

The company is subject to the provisions of the Federal Anti-Inflation Legislation restraining prices, profit margins and compensation.

14. Comparative Data

The 1976 comparative data include the results of operations in the United Kingdom for the period to August 25, 1976, the date of disposal.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Niagara Finance Company Limited as at December 31, 1977 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 3, 1978

Coopers & Lybrand
Chartered Accountants

Board of Directors

Roland Chagnon, C.A.
Montreal, Que.
Chairman of the Board, Lallemand Inc.

Peter Kilburn
Montreal, Que.
Honorary Chairman, Greenshields Incorporated

Joseph S. Land
Toronto, Ont.
Vice-Chairman of the Board, IAC

Byron F. London
Codys, N.B.
Retired, former President

Keith H. MacDonald
Toronto, Ont.
Chairman of the Board, IAC

Lawrence M. Machum, Q.C.
Saint John, N.B.
Partner, McKelvey, Macaulay, Machum and Fairweather

Douglas W. Maloney
Toronto, Ont.
President, IAC

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President, IAC

William Moodie
Montreal, Que.
President, Canadian Pacific Investments Limited

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Retired, Director and former Chairman of the Board, IAC

L. Ronald Woodall
Toronto, Ont.
President

These companies provide first and second mortgage loans, primarily on residential property. In addition, existing mortgages are purchased, individually and on a portfolio basis.

Mortgage loans outstanding at $258.9 million were higher by $10 million or 4% over the previous year end. The average total outstandings for the year increased by 13%.

The average cost of borrowed funds declined during the year. However, as the result of rate reductions in the mortgage market and an increase of 10% in overhead, earnings declined 10%.

The portfolio, which has more than doubled in the last five years, is in sound condition. Further growth and favourable results are anticipated in 1978.

Selected Niagara Realty Statistics:	**1977**	1976	1975	1974	1973
Earnings ($ thousands)	**3,643**	4,046	3,388	2,202	1,679
Mortgage receivables ($ millions)	**258.9**	248.9	202.2	175.6	127.6
Average mortgage balance at year end (dollars)	**12,082**	10,590	8,962	7,963	6,339

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1977

	1977 $000's	1976 $000's
Gross Income (note 2)	**35,387**	32,892
Expenditure		
Cost of borrowed money—Short-term debt	**8,485**	8,711
—Other term debt	**12,230**	9,416
	20,715	18,127
General and administrative (note 3)	**7,487**	6,806
	28,202	24,933
	7,185	7,959
Provision for Income Taxes		
Current	**3,723**	4,175
Deferred	**(181)**	(262)
	3,542	3,913
Earnings	**3,643**	4,046

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1977

	1977 $000's	1976 $000's
Earnings for the Year	**3,643**	4,046
Dividends	**2,800**	2,400
Increase in Retained Earnings for the Year	**843**	1,646
Retained Earnings—Beginning of Year	**7,363**	5,717
Retained Earnings—End of Year	**8,206**	7,363

CONSOLIDATED BALANCE SHEET
as at December 31, 1977

ASSETS	1977 $000's	1976 $000's
Cash	**1**	4,652
Unclosed Loans	**1,223**	4,613
Receivables		
Residential mortgages	**258,936**	248,880
Other (note 4)	**5,553**	225
	264,489	249,105
Allowance for doubtful receivables	**1,945**	1,868
	262,544	247,237
Other Assets		
Prepaid expenses	**4**	18
Unamortized debt discount and expense	**1,846**	1,355
Office equipment and automobiles (note 5)	**—**	21
	1,850	1,394
	265,618	257,896

LIABILITIES

Demand Note Payable—parent company	**87,556**	128,675
Secured Term Notes (notes 6 and 8)	**149,846**	102,180
Payables		
Accounts payable and accrued liabilities	**5,488**	3,557
Income taxes	**805**	1,423
	6,293	4,980
Deferred Income	**3,457**	4,257
Deferred Income Taxes (note 7)	**260**	441
	247,412	240,533

SHAREHOLDERS' EQUITY

Capital Stock		
Authorized—		
2,000,000 8% non-cumulative, redeemable preferred shares of $5 par value		
2,000,000 common shares of $5 par value		
Issued and fully paid—		
2,000,000 common shares	**10,000**	10,000
Retained Earnings	**8,206**	7,363
	18,206	17,363
	265,618	257,896

Signed on behalf of the Board L.R. Woodall, Director S.F. Melloy, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1977

	1977 $000's	1976 $000's
Sources of Funds		
Operations—		
Earnings	3,643	4,046
Amortization of debt discount and expense	449	383
Depreciation	—	9
Provision for deferred income taxes	(181)	(262)
	3,911	4,176
Borrowings—		
Demand note payable—Parent company	(41,119)	45,645
Secured term notes—Proceeds	49,060	—
—Redemptions	(2,334)	(2,035)
	5,607	43,610
	9,518	47,786
Uses of Funds		
Increase in operating assets—		
Residential mortgages	10,056	46,633
Increase in allowance for doubtful receivables	(77)	(351)
Decrease (increase) in deferred income	800	(121)
	10,779	46,161
Dividends	2,800	2,400
Increase (decrease) in unclosed loans	(3,390)	728
Net decrease (increase) in payables	(1,313)	881
Net increase in other assets including other receivables	5,293	122
	14,169	50,292
Decrease in cash	(4,651)	(2,506)
	9,518	47,786

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 1977

1. Significant Accounting Policies

(a) Principles of consolidation

The financial statements include the accounts of the company and its subsidiary, Niagara Realty Limited.

(b) Allowance for doubtful receivables

For residential mortgages such allowance is set up as a percentage of total residential mortgage receivables.

(c) Amortization of debt discount and expense

Debt discount and expense is amortized over the term of the related debt instrument. If the debt is prepayable at the holder's option, the amortization is calculated to the first optional maturity date. When a debt obligation is redeemed prior to maturity, the related unamortized charges are written off in the month of redemption.

(d) Deferred income

Deferred income arises from mortgages purchased at a discount and is taken into income over the remaining term of the mortgage on the actuarial yield method.

2. Gross Income

	1977 $000's	1976 $000's
Earned income on mortgages	36,387	33,451
Less: Provision for doubtful receivables	1,000	559
	35,387	32,892

3. Expenditure

	1977	1976
Depreciation of office equipment and automobiles (note 5)	NIL	$ 9,000
Remuneration of directors and officers—		
Aggregate remuneration of directors as directors	NIL	NIL
Number of directors	7	7
Aggregate remuneration of officers as officers	NIL	$30,000
Number of officers	6	8
Number of officers who are also directors	3	3

The affairs of the companies are administered by IAC Limited.

4. Other Receivables

Under an arrangement with the parent company and certain of its subsidiaries, the company and its subsidiary conduct the majority of its banking business through a bank account established and maintained by the parent company. Included in other receivables is $4,968,000, the amount established under the arrangement as being the company and its subsidiary's portion of this bank account as at December 31, 1977.

5. Sale of Fixed Assets

During the year, office equipment and automobiles were sold to the parent company at their net book value.

6. Secured Term Notes

Year of issue	Series	Rate %	Maturity date	1977 $000's	1976 $000's
1970	"A"	9¾*	December 15, 1990	4,610	4,610
1971	"B"	7⅞**	December 15, 1986	17,923	18,516
1972	"C"	8¼	August 15, 1982	12,893	13,465
1973	"D"	7⅞***	May 15, 1988	18,376	18,801
1974	"E"	9 ****	March 1, 1994	23,460	23,460
1974	"F"	10¼	June 18, 1981	9,834	9,834
1974	"F"	10⅜	December 18, 1984	12,750	13,494
1977	"G"	9½	January 30, 1984	50,000	—
				149,846	102,180

*Holders have the right to prepayment on December 15, 1980 and 1985.

**Holders have the right to prepayment on December 15, 1978.

***Holders have the right to prepayment on May 15, 1980.

****Holders have the right to prepayment on March 1, 1980.

Series "A", "B", "C", "D", "E" and "G" notes and series "F" notes maturing in 1981, have purchase fund provisions.

Series "F" notes maturing in 1984 have a sinking fund provision.

IAC Limited has guaranteed all Series notes as to principal, interest and redemption premiums, if any.

7. Deferred Income Taxes
Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income or expenses associated with the following balance sheet items:

	1977 $000's	1976 $000's
Residential mortgages	**971**	935
Unamortized debt discount and expense	**(711)**	(494)
	260	441

8. Sinking Fund and Purchase Fund Requirements
The sinking fund requirements for the five years ending December 31, 1978 to 1982 are as follows:

	$000's
1978	750
1979	750
1980	750
1981	750
1982	750

Certain issues have purchase fund requirements which are non-cumulative and under which the company is required to redeem only debt instruments offered to it subject to limitations as to price and aggregate annual amounts. It is not possible to predict the amounts that will be offered by holders. The maximum purchase fund requirements for the years ending December 31, 1978 and thereafter are as follows:

Years ending December 31	$000's
1978	4,734
1979	3,291
1980	2,272
1981	1,312
1982	1,000
1983	583

9. Anti-Inflation Act
The company and its subsidiary are subject to the provisions of the Federal Anti-Inflation Legislation restraining prices, profit margins and compensation.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Niagara Realty of Canada Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 3, 1978

Coopers & Lybrand
Chartered Accountants

Board of Directors

Allan P. Bolin
Toronto, Ont.
Senior Vice-President, IAC

Robert Hémond
Montreal, Que.
Vice-President

Joseph S. Land
Toronto, Ont.
Vice-Chairman of the Board, IAC

Douglas W. Maloney
Toronto, Ont.
President, IAC

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President, IAC

François P. Paradis
Toronto, Ont.
Vice-President

L. Ronald Woodall
Toronto, Ont.
President

DIRECTORS AND OFFICERS

Directors

*Keith H. MacDonald
Toronto, Ont.
Chairman of the Board

*Joseph S. Land
Toronto, Ont.
Vice-Chairman of the Board

*Douglas W. Maloney
Toronto, Ont.
President

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President

*Harold Corrigan, C.A.
Toronto, Ont.
President, Alcan Canada Products Limited

*Peter Kilburn
Montreal, Que.
Honorary Chairman Greenshields Incorporated

*C. Harry Rosier
Toronto, Ont.
President and Chief Operating Officer Abitibi Paper Company Ltd.

*Adam H. Zimmerman, F.C.A.
Toronto, Ont.
Executive Vice-President Noranda Mines Limited

Peter F. Bronfman
Montreal, Que.
President, Edper Investments Ltd.

Stanley D. Clarke
Montreal, Que.
President, Clarke Transportation Canada Ltd.

Ronald L. Cliff, C.A.
Vancouver, B.C.
Chairman, Inland Natural Gas Company Ltd.

George L. Crawford, Q.C.
Calgary, Alta.
Associate, McLaws & Company

Helen L. Margison
Toronto, Ont.
President, Shed Investments Limited

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Retired, former Chairman of the Board

Edmond G. Odette
Toronto, Ont.
President, Eastern Construction Company Limited

John A. Rhind
Toronto, Ont.
President, Confederation Life Insurance Company

L. Edmond Ricard
Montreal, Que.
President, Imperial Tobacco Limited

Struan Robertson
Halifax, N.S.
President and Chief Executive Officer Maritime Telegraph and Telephone Company Ltd.

Jacques Tétrault, Q.C.
Montreal, Que.
Partner, Courtois, Clarkson, Parsons & Tétrault

*Member of the Executive Committee of the Board as at December 31, 1977

Officers

Chairman of the Board
K.H. MacDonald

Vice-Chairman of the Board
J.S. Land

President
D.W. Maloney

Executive Vice-President
S.F. Melloy

Senior Vice-President—Corporate Development
A.P. Bolin

Senior Vice-President—Business Financing
F.P. Paradis

Senior Vice-President—Consumer Services and Mortgages
L.R. Woodall

Vice-Presidents
W.P. Davidson
L.G. Gravel
R. Hémond
S.S Ilaqua—*Treasurer*
R.K. Jackson
N.V. Keyes
E.W. McCracken
D.A. Rattee
W. Smuk
W.J. Van Wyck
K.E. Woodall

Secretary
C.R. Stewart

Comptroller
J.J. Tors

BANK CREDIT LINES

Established with the following Canadian banks:
The Royal Bank of Canada
Bank of Montreal
Canadian Imperial Bank of Commerce
The Toronto Dominion Bank
The Bank of Nova Scotia
Bank Canadian National
The Provincial Bank of Canada
The Mercantile Bank of Canada
Bank of British Columbia

Established directly or through their affiliates with the following U.S. banks:
Morgan Guaranty Trust Company of New York
Bank of America
Bankers Trust Company
Chemical Bank
Citibank, NA
Continental Illinois National Bank and Trust Company of Chicago
Crocker National Bank
French American Banking Corporation
Harris Trust and Savings Bank
Irving Trust Company
Manufacturers Hanover Trust Company
Marine Midland Bank—Western
Mellon Bank NA
National Bank of Detroit
National Bank of North America
Schroder Trust Company
Seattle-First National Bank
Security Pacific National Bank
The Bank of New York
The Chase Manhattan Bank NA
The First National Bank of Boston
The First National Bank of Chicago
The Northern Trust Company
United California Bank
Wells Fargo Bank NA

TRANSFER AGENTS

Common Stock
Montreal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver
The Bank of New York
New York

Preferred Stock
The Royal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

REGISTRARS

Common Stock
Canada Permanent Trust Company
Montreal and Toronto
The Royal Trust Company
Winnipeg, Regina, Calgary and Vancouver
The Bank of New York
New York

Preferred Stock $100 Par Value
Montreal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Preferred Stock $25 Par Value
Guaranty Trust Company of Canada
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

AUDITORS

Coopers & Lybrand
Toronto, Chartered Accountants

STOCK LISTINGS

Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange—Common Stock only

Printed in Canada

53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL
ED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANN
MITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd
C LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED
77 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMIT
T 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LI
PORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IA
L REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 19
UAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPOR
ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL RE
53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL
ED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANN
MITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd
C LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED
77 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMIT
T 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LI
PORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IA
L REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 19
UAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPOR
ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL RE
53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL
ED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANN
MITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd
C LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED
77 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMIT
T 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LI
PORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IA
L REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 19
UAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPOR
ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL RE
53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL
ED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANN
MITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd
C LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED
77 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMIT
T 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LI
PORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IA
L REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 19
UAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPOR
ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL RE
53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL
ED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANN
MITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd
C LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED
77 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMIT
T 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LI
PORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IA
L REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 1977 IAC LIMITED 53rd ANNUAL REPORT 19